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ABSTRACT

This audit report presents results of a review of the Florida Eminent Scholar and Major Gift Challenge Grant Programs. In four chapters the report: (1) reviews the purpose, scope, and background of the programs; (2) looks at program successes, fees, and expenditures, noting that the programs have raised $219 million in private donations to support 707 major gift endowments and 148 eminent scholar chairs; (3) compares Florida's programs to those in other states and finds that not only do fewer than half have similar challenge grant programs but that Florida's program provides more funds; and (4) lists policy options that call for eliminating or reducing funding, raising endowments needed for chairs, and/or providing funding incentives for universities that have few endowments. Among recommendations offered are establishing an appropriate range of administrative fees for managing endowment funds and reviewing fees charged by foundations. Appended to the report is a response by the chancellor of the state university system. Fourteen tables summarize the data. (CH)

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ED 406 933

REPORT NO. 96-01

THE FLORIDA LEGISLATURE

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY

REVIEW OF

FLORIDA'S EMINENT SCHOLAR AND MAJOR GIFT CHALLENGE GRANT PROGRAMS

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This Office conducts studies and issues a variety of reports, such as policy analyses, justification reviews, program evaluations, and performance audits. These reports provide in-depth analyses of individual state programs and functions. Reports may focus on a wide variety of issues, such as:

- Whether a program is effectively serving its intended purpose;
- Whether a program is operating within current revenue resources;
- Goals, objectives, and performance measures used to monitor and report program accomplishments;
- Structure and design of a program to accomplish its goals and objectives; and
- Alternative methods of providing program services or products.

The objective of these reports is to provide accurate, reliable information that the Legislature or an agency can use to improve public programs.

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John W. Turcotte
Director

The Florida Legislature

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY

July 8, 1996

The President of the Senate,
the Speaker of the House of Representatives,
and the Legislative Auditing Committee

I have directed that a review be made of Florida's Eminent Scholar and Major Gift Challenge Grant Programs. The results of the review are presented to you in this report. This review was made as a part of an ongoing program of performance auditing as mandated by Section 11.51(1), Florida Statutes. This review was conducted by Kim McDougal, Ron Draa, and Tim Elwell under the supervision of Jane Fletcher.

We wish to express our appreciation to the staff of the Board of Regents and the university foundations for their assistance.

Respectfully yours,

John W. Turcotte
Director

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Report Abstract

No. 96-01

Review of Florida's Eminent Scholar and Major Gift Challenge Grant Programs

- The Eminent Scholar and Major Gift Challenge Grant Programs have raised $219 million in private donations and established 148 eminent scholar chairs and 707 major gift endowments. (Report Page 4.)

- The programs' success is affected by factors such as the universities' ability to attract private donations and their rates of return on endowment investments. (Report Pages 5-11.)

- The Board of Regents has not determined the reasonableness of administrative fees charged by the foundations. (Report Pages 13-14.)

- In fiscal year 1994-95, eminent scholar and major gift expenditures were primarily for instruction, research, and scholarships. (Report Pages 15-19.)

- Florida provides more funds for its challenge grant programs than other states with similar programs. (Report Pages 20-21.)

Recommendations:

- The Legislature should require the foundations to annually report to the Board of Regents the amount of administrative fees they charge the universities. (Report Page 23.)

- The Board of Regents should ensure the administrative fees assessed by foundations are reasonable. (Report Page 24.)

Review of Florida's Eminent Scholar and Major Gift Challenge Grant Programs

CHAPTER I Purpose, Scope, and Background

Purpose and Scope

The Office of Program Policy Analysis and Government Accountability reviews programs to provide information the Legislature can use to improve program accountability and allocate limited public resources. This review of the Eminent Scholar and Major Gift Challenge Grant Programs included the following:

- The programs' success in establishing Eminent Scholar and Major Gift endowments;
- Administrative fees assessed by the universities to manage the endowments;
- The universities' expenditures of endowment funds; and
- Other states' programs compared to Florida's.

Background

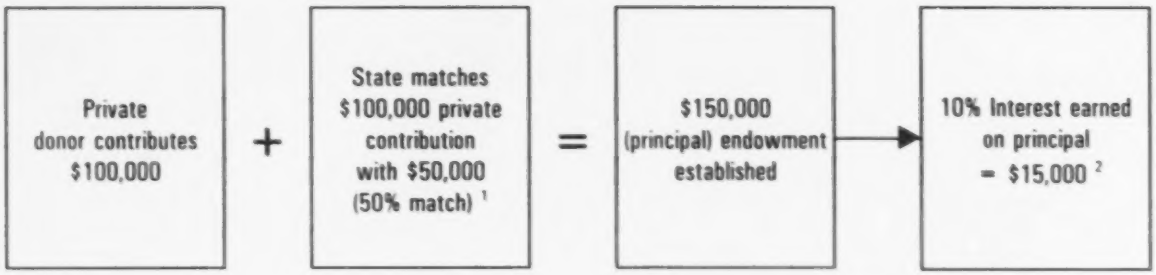
The Purpose of an Endowment

The Legislature established the Trust Fund for Major Gifts to fund endowments for the Eminent Scholar and Major Gift Challenge Grant Programs. The purpose of these programs is to provide an incentive for donors in the form of matching grants. Endowments are funds donated to an institution to produce income. Florida statutes provide for the establishment of permanent endowments to support university libraries, instruction, and research programs.[1] The state, in funding these endowments, is making a long-term investment in the state university system. The endowments are invested and only the earnings generated from the investments can be expended. Therefore, these endowments continue to provide a source of funds that

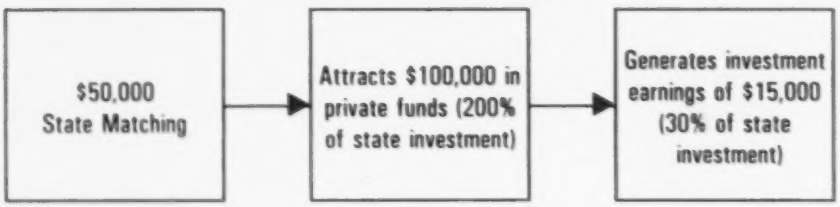
[1] According to s. 240.2605, F.S., state matching grants and donations are used to establish permanent endowments which shall be invested with the proceeds used to support these programs.

support program activities year after year without requiring additional state money. Refer to Exhibit 1 for an illustration of how endowments work including what the state receives for its investment.

Exhibit 1: Illustration of How Endowments Work


Private donor contributes $100,000
+
State matches $100,000 private contribution with $50,000 (50% match) [1]
=
$150,000 (principal) endowment established
10% Interest earned on principal = $15,000 [2]

What the State Receives for Its Investment (Using the Above Example)


$50,000 State Matching
Attracts $100,000 in private funds (200% of state investment)
Generates investment earnings of $15,000 (30% of state investment)

[1] The percentage match is based on the amount of the contribution.
[2] For this illustration we assumed a 10% rate of return. Actual rates of return are subject to market fluctuations.

Source: Office of Program Policy Analysis and Government Accountability.

The university foundations solicit money from private donors for these endowment programs. They are also responsible for investing the endowment funds and disbursing the earnings to the academic units involved. The

Board of Regents distributes state matching funds to the universities.

The primary purpose of the Eminent Scholar Challenge Grant Program is to attract and retain distinguished scholars. To establish an Eminent Scholar Endowed Chair, a private donor must donate $600,000 or more. The state provides matching funds based on a percentage established in the Florida Statutes. (See Exhibit 2.) Most (79%) endowed chairs have been established through minimum donations of $600,000. From 1979 through June 1995, the Eminent Scholars Challenge Grant Program has raised $110.9 million in private donations. The state has provided $78.5 million in matching funds for this program.

Exhibit 2: The State Matching Percentage Increases as the Private Donation Increases For Eminent Scholar and Major Gift Endowments

Amount of Private Donation for Eminent Scholar and Major Gift Endowments		
In Excess of	**But Not More Than**	**State Challenge Grant Match**
$100,000	$599,999	50%
$600,000	$1 Million	70%
$1 Million	$1.5 Million	75%
$1.5 Million	$2 Million	80%
$2 Million	---	100%

Source: Section 240.2605, Florida Statutes.

The Major Gift Challenge Grant Program's primary purpose is to support scholarships, professorships, and fellowships. To establish a major gift, a private donor must donate $100,000 or more. The matching percentages used for the Eminent Scholar Program also apply to this program. (See Exhibit 2.) Over half (57%) of the major gifts were established with donations of $100,000. From 1985 through June 1995, the Major Gift Challenge Grant Program has raised $108.2 million in private donations. The state has provided $32.8 million in matching funds for this program.

CHAPTER II Program Success, Fees, and Expenditures

The purpose of these programs is to provide an incentive in the form of matching funds that universities can use to generate private donations. The success of the program can be measured by the amount of private donations raised by the universities, and investment earnings on endowments.

Program Success

The Major Gift and Eminent Scholar Challenge Grant Programs have raised $219 million in private donations which established 707 major gift endowments and 148 eminent scholar chairs.

The Eminent Scholar and Major Gift Challenge Grant Programs combined raised $330 million in private donations and state funds. The state provided $111 million (34%) of this total and private donations provided $219 million (66%). These private donations allowed the universities to establish 707 major gift endowments and 148 eminent scholar chairs.

Although the Eminent Scholar Challenge Grant Program was established six years earlier, the Major Gift Challenge Grant Program has generated approximately the same amount of financial support for the universities. Since inception, total private donations for eminent scholar chairs and major gift endowments are $110.9 million and $108.2 million, respectively. The Major Gift Challenge Grant Program achieved this level of financial support in a shorter time because the private donation required for a major gift endowment is significantly less than for an eminent scholar endowed chair, $100,000 compared to $600,00.

Success of the Major Gift and Eminent Scholar Challenge Grant Programs is affected by several factors, such as the universities' ability to attract private donations and the rate of return on endowment investments.

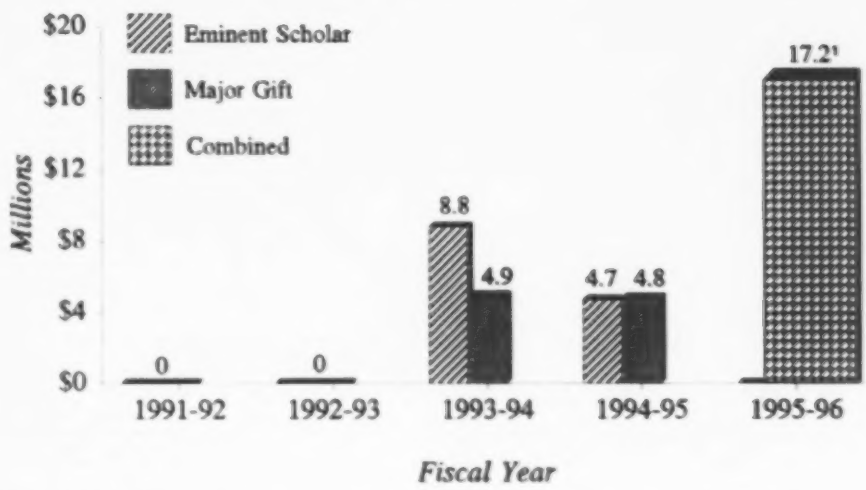
Availability of State Appropriations

In three of the past five years, the Legislature appropriated funds to support these programs. During the five-year period 1991-92 through 1995-96, the Legislature provided a total of $40.4 million to the programs. (See Exhibit 3.) Universities use these programs to varying degrees. (See Exhibit 4.)

In some years private contributions have exceeded the amount the state could match. In years when state funds are not sufficient, the Board of Regents uses a prioritized waiting list for universities' requests for state matching funds. According to Board staff, requests for matching funds are prioritized based on the date received. During the three year period from fiscal year 1993 through 1995, the maximum wait for state matching funds was 11 months.

As of March 31, 1996, for fiscal year 1995-96 the Eminent Scholar Challenge Grant Program and the Major Gift Challenge Grant Program received $8.4 million in private donations that exceeded the amount state funds could match.

Exhibit 3: Legislative Appropriations Have Varied Over the Past Five Years



¹Chapter 94-230 combined the Eminent Scholar and Major Gift programs into a single matching program.

Source: Office of Program Policy Analysis and Government Accountability.

Exhibit 4: Universities Use of These Programs Vary

University	Eminent Scholar Chairs 1979 through June 30, 1995			Major Gifts 1985 through June 30, 1995		
	Funded Chairs[1]	Private funds (millions)[2]	State funds (millions)	Funded Gifts	Private funds (millions)[2]	State funds (millions)[3]
UF	54	$ 35.3	$25.0	374	$46.5	$24.5
FSU	22	$ 16.6	$12.8	61	$ 6.3	$ 3.1
FAMU	5	$ 3.4	$ 2.4	65	$ 6.9	$ 3.4
USF[4]	32	$ 22.1	$16.4	53	$ 5.8	$ 2.9
FAU	12	$ 11.1	$ 9.1	32	$ 3.5	$ 1.7
UCF	3	$ 6.4	$ 4.5	28	$ 2.9	$ 1.4
UWF	10	$ 5.0	$ 4.6	64	$ 8.9	$ 5.8
FIU	2	$ 1.2	$ 0.8	21	$ 2.0	$ 1.0
UNF	4	$ 2.4	$ 1.6	9	$ 0.9	$ 0.5
FGCU	3	$ 1.8	$ 1.3	0	$ 0.0	$ 0.0
Totals	147	$105.3	$78.5	707	$83.7	$44.3

[1] Does not include the Board of Regents chair.
[2] Amounts shown do not include encumbered donations, priority list donations, and in progress.
[3] Amounts shown include interest earned on the Trust Fund.
[4] Does not include New College.

Source: Office of Program Policy Analysis and Government Accountability.

Universities' Ability to Attract Private Donations

The University of Florida, University of South Florida, and Florida State University created 74% of eminent scholar endowed chairs. The academic areas of Business and Medicine account for 44% of all endowed chairs established.

Although all state universities participate in the program, the number of chairs established at each university varies greatly. For example, Florida International University has established 2 chairs and the University of Florida has established 54 chairs. Overall, the University of Florida (37%), University of South Florida (22%), and Florida State University (15%) account for 74% of all endowed chairs. These three universities all have professional schools (e.g., law or medical schools) and have consolidated funds from a larger and more established alumni. Eminent scholar endowed chairs cover a variety of academic areas including Agriculture, Business, Economics, Education, Engineering,

Law, and Medicine. As can be seen in Exhibit 5 Business and Medicine account for 44% of all endowed chairs.

Exhibit 5: Three Universities Created 74% of the Endowed Chairs

Academic Area	UF	FSU	FAMU	USF	FAU	UWF	UCF	FIU	UNF	FGCU	TOTAL[1]	
											No.	Percent
Agriculture	6										6	4%
Architecture	1			2							3	2%
Art	1	1					1				3	2%
Business	12	4	2	4	1	1	5	1	2		32	22%
Communications	1		2	1							4	3%
Computers		1				1	1				3	2%
Economics		3		1							4	3%
Education				1	1		1		1		4	3%
Engineering	3	2		2	1		1				9	6%
English	1			1							2	1%
Humanities					3			1			4	3%
Law	3	2									5	3%
Medicine	16			16							32	22%
Natural Science	2			1	1						4	3%
Nursing	1				1		1			1	4	3%
Music/Dance		3							1		4	3%
Pharmacy	1		1								2	1%
Political Science	1	1									2	1%
Sociology				1	1						2	1%
Theater		2			1						3	2%
Veterinary Medicine	2										2	1%
Others	3	3		2	2	1				2	13	9%
TOTAL	**54 37%**	**22 15%**	**5 3%**	**32 22%**	**12 8%**	**3 2%**	**10 7%**	**2 1%**	**4 3%**	**3 2%**	**147 100%**	

UF - University of Florida
FSU - Florida State University
FAMU - Florida Agricultural and Mechanical University
USF - University of South Florida
FAU - Florida Atlantic University
UWF - University of West Florida
UCF - University of Central Florida
FIU - Florida International University
UNF - University of North Florida
FGCU - Florida Gulf Coast University

[1] The Board of Regents uses one chair to fund the Collins Center for Public Policy.

Source: Compiled by the Office of Program Policy Analysis and Government Accountability from information provided by the state universities.

The universities vary greatly in the number of major gifts they established. The University of Florida created over half the major gifts.

In total, the universities have established 707 major gift endowments. The number of endowments established at the individual universities range from 9 at the University of North Florida to 374 at the University of Florida. (See Exhibit 6.) Scholarships and professorships represent 51% and 36% of gifts established.

Exhibit 6: Universities Vary Greatly in the Number of Major Gift Endowments They Have Established

Types of Gifts	UF	FSU	FAMU	USF[1]	FAU	UCF	UWF	FIU	UNF	Total	
										No.	Percent
Scholarships	148	37	64	15	12	17	55	8	6	362	51%
Professorships	180	16	1	14	13	8	7	10	2	251	36%
Fellowships	32	5	0	22	2	1	0	3	0	65	9%
Other[2]	14	3	0	2	5	2	2	0	1	29	4%
Total Gifts	374 53%	61 9%	65 9%	53 7%	32 5%	28 4%	64 9%	21 3%	9 1%	707	100%

[1] Does not include New College.
[2] Other includes equipment grants, research grants, and any combination of major gifts.

UF - University of Florida
FSU - Florida State University
FAMU - Florida Agricultural and Mechanical University
USF - University of South Florida
FAU - Florida Atlantic University
UWF - University of West Florida
FIU - Florida International University
UCF - University of Central Florida
UNF - University of North Florida

Source: Compiled by the Office of Program Policy Analysis and Government Accountability from information provided by state universities.

The university foundations' annualized rate of return for fiscal years 1993 through 1995 ranged from 6.9% to 10.9%.

Earnings from investments support eminent scholar endowed chairs and major gift endowments. Income earned is used to pay annual operating costs, enhance the endowment, and provide a reserve to cover operating costs when earnings are low or negative. Foundation staff either invest the funds or hire professional money managers for this purpose. Generally, foundations invest in financial products such as U.S. Government obligations, money market trust funds, and corporate stocks and bonds.

Foundations Rates of Return on Endowments Vary

For fiscal years 1992-93 through 1994-95, the foundations' annualized annual rate of return ranged from 6.9% to 10.9%. (See Exhibit 7.) According to foundation staff, variations in return rates result from differences in asset mix and market fluctuations. Thus, in years when stocks outperform other asset classes, foundations with a high percentage of their investments in stocks will likely have higher returns than foundations that are mostly invested in other asset classes. Exhibit 8 shows the returns for several broad market indexes and the total return for the Florida Retirement System Trust Fund for fiscal years 1992-93 through 1994-95 and the annualized returns for the three-year period. As illustrated by Exhibit 8, return rates fluctuated widely for some asset classes over the three-year period. The foundations' return rates shown in Exhibit 7 are consistent with these market fluctuations.

Exhibit 7: The Annualized Return on Investments Ranged from 6.9% to 10.9% for Fiscal Years 1992-93 through 1994-95 [1]

	Fiscal Years			Annualized Return
	1992-93	1993-94	1994-95	
UF	14.5%	2.0%	16.8%	10.9%
FSU	11.2%	(3.1%)	19.1%	8.7%
FAMU	N/A	5.02%	13.94%	9.4%
USF	9.42%	(0.88%)	15.23%	7.7%
FAU	7.9%	2.1%	12.8%	7.5%
UWF	12.0%	(1.1%)	12.2%	7.5%
UCF	6.7%	(2.8%)	17.8%	6.9%
FIU	8.0%	10.0%	5.0%	7.6%
UNF	10.29%	(1.93%)	26.0%	10.9%

[1] Two universities (FAMU and FIU) reported funds for calendar year 1995.

Source: University foundations.

Exhibit 8: Return Rates for Broad Market Indexes and the Florida Retirement System Trust Fund Fluctuated Widely for Fiscal Years 1992-93 Through 1994-95

	Fiscal Years			Annualized Return
	1992-93	1993-94	1994-95	
Market Index/Asset Class				
Standard & Poors 500/ Domestic Equities	13.6%	1.4%	26.1%	13.2%
Europe, Australia, Far East Index/ Foreign Equities	20.3%	17.0%	1.6%	12.6%
Lehman Aggregate Bond Index/Fixed Income	11.8%	-2.5%	12.6%	7.5%
Frank Russell Company Property Index/ Real Estate [1]	-3.6%	1.7%	7.9%	2.7%
91-Day Treasury Bill Rate/Cash Equivalents	3.1%	3.1%	5.0%	3.7%
Florida Retirement System Trust Fund (Total Fund Return)	15%	0.6%	18.5%	11.1%

[1] March 31 returns (one quarter lagged).

Source: Compiled by the Office of Program Policy Analysis and Government Accountability.

Time Taken For Universities to Award Chairs

Universities take approximately 2.5 years to award a chair and 8 chairs have been vacant for over 4 years.

The universities have established 148 endowed chairs since the inception of the program. Generally chairs are filled within two years, however, eight chairs have been vacant for 4 years. Reasons given by foundation staff for chairs remaining vacant include the following: the university with donor approval uses the funds for faculty incentives until the university decides the best use for the chair; the university receives the donor's permission to let the endowment increase through interest earnings before filling the chair; and, the university has been unsuccessful in its search for an eminent scholar appropriate for the particular chair. On average, the universities took approximately 2.5 years to award endowed chairs. Exhibit 9 shows the time universities took to initially award chairs ranged from less than 6 months to over 5 years.

Exhibit 9: Twenty-One Percent of the Chairs Were Not Awarded Within Four Years of Their Establishment

Time to Initially Award Chairs	Awarded Chairs (n=124)[1]		Vacant Chairs (n=20)	
	No.	Percent	No.	Percent
Less than or = 6 Months	21	7%	0	0%
Over 6 Months Through 1 Year	11	9%	1	5%
More Than 1 Year and Up Through 2 Years	38	31%	7	35%
More Than 2 Years and Up Through 4 Years	28	22%	4	20%
More Than 4 Years and Up Through 5 Years	11	9%	2	10%
Greater Than 5 Years	15	12%	6	30%

21%

[1] This analysis does not include 4 chairs that are used to support activities rather than individuals. These chairs support conferences, professional development activities, libraries, etc.

Source: Compiled by the Office of Program Policy Analysis and Government Accountability.

Administrative Fees

Most foundations assess the endowments annual administrative fees that range between 1% and 2% of the endowment value. The Board has not analyzed fees charged by the foundations to determine if they exceed fees commonly charged by private investment firms.

Most foundations assess the endowments annual administrative fees that range between 1% and 2% of the endowment for investing and maintaining the challenge grant endowments. (See Exhibit 10.) Foundation staff stated that administrative fees are used for basic operating costs such as office space and supplies, audit fees, investment management fees, and custodial fees. Neither statute nor Board of Regents' rules set specific guidelines or limits on these fees. Board policy stipulates that administrative fees for managing endowment funds should not exceed fees commonly charged by private investment firms for such services. However, the Board has not analyzed fees charged by the foundations to determine if they exceed fees commonly charged by private investment firms.

The reasonableness of administrative fees is important because monies paid for administrative fees are not available for endowment purposes. The BOR or the Legislature should establish specific guidelines or limits for administrative fees so that the maximum amount is available to support the benefits intended by the private donor and the state. Private investment firms generally charge 1% or less of the amount they manage. Fees are generally based on the amount of funds invested and are usually negotiable. In contrast, the State Board of Administration charges an administrative fee of .02%, but it manages billions of dollars. The foundations charge administrative fees that range between 1% and 2% of the endowments. However, fees charged by foundations pay for internal or external investment management as well as the foundations' administrative costs.

Exhibit 10: Seven Foundations Assess Fees to Manage Eminent Scholar and Major Gift Endowments

University	Administrative Fees	
	Eminent Scholar Endowments	Major Gift Endowments
UF	1% Annual Fee	1% Annual Fee
FSU	2% Annual Fee	2% Annual Fee
FAMU	1.5% Annual Fee	1.5% Annual Fee
USF	1% Annual Fee	1% Annual Fee
FAU	No Fee	No Fee
UWF	2% Annual Fee	2% Annual Fee
UCF	1% Annual Fee	1.5% Annual Fee
FIU	No Fee	No Fee
UNF	Foundation assesses deposit and transfer fees of 5-10% of the deposit or transfer amount.	Foundation assesses deposit and transfer fees of 5-10% of the deposit or transfer amount.

Source: University foundations.

Program Expenditures

Universities use funds generated from earnings on endowments to pay for program expenditures. Exhibit 11 illustrates how earnings on endowments are typically used by universities. Earnings on endowments are typically used to pay annual program expenditures and administrative fees, create a reserve to cover expenditures when earnings are low or negative, and to enhance the endowments.

Exhibit 11: An Illustration of How Earnings on Endowments Are Typically Used

Assume 10% Return on $150,000 Endowment
Earnings = $15,000

Percent of Endowment Value	Amount	How Earnings Are Used
5%	$7,500	Program Expenditures
1%	$1,500	Administrative Fees
Varies[1]	$6,000	Reserve Fund
Varies[1]		Increase Value of Endowment
Total	$15,000	

[1] Depends on amount of funds available after annual program expenditures and administrative fees.

Source: Office of Program Policy Analysis and Government Accountability

Foundations determine the amount of funds that universities will use each year to support the activities of the endowment. The foundations annualized return on investments ranged from 6.9% to 10.9% for fiscal years 1992-93 through 1994-95. In fiscal year 1994-95 the universities' average expenditures to support endowments was 3.8% of the original endowment value, which followed a fiscal year in which the rate of return ranged from -3.1% to 10%. We reviewed how the universities expended these funds to support the activities of eminent scholars and major gifts.

In fiscal year 1994-95 the Eminent Scholar and Major Gift Challenge Grant Programs' expenditures were primarily used for instruction, research, and scholarships.

Florida Statutes require that earnings from Eminent Scholar and Major Gift Challenge Grant endowment funds be used to support libraries, instruction, or research programs. The Board of Regents' rules direct that these funds be used for

personnel, equipment, supplies, books, subscriptions, technological resources, and other legitimate purchases in support of instruction and research. The only restriction is that these funds may not be used for constructing, renovating, or maintaining facilities or supporting intercollegiate athletics.

Expenditures of Eminent Scholar Funds

Statewide, the universities spent over $9 million in support of eminent scholar endowed chairs in fiscal year 1994-95. The law stipulates these funds may be spent to support libraries, instruction and research. We found these funds are typically used to support instruction and research. These expenditures ranged from approximately $68,000 at Florida International University to almost $3.9 million at the University of Florida. Over half of these expenditures were for faculty salaries. We found 34 (23%) of 147 chairs initially awarded were given to professors that were previously employed at the awarding university. The universities also reported additional types of expenditures such as equipment and supplies, university general expenses, Other Personal Services (OPS) wages, travel and entertainment, secretary salaries, legal and professional services, and scholarships. (See Exhibit 12.)

Exhibit 12: Universities Primarily Used 1994-95 Eminent Scholar Funds for Instruction and Research [1]

Expenditure	UF (54)	FSU (22)	FAMU (5)	USF (32)	FAU (12)	UWF (3)	UCF (10)	FIU (2)	UNF (4)	Category Total (in Thousands)	
										Amount	Percent
Faculty Salary	49%	27%	0%	83%	33%	90%	36%	0%	74%	$4,785	52%
Equipment and Supplies	11%	9%	0%	6%	17%	0%	1%	19%	8%	$ 862	9%
University-General Expenses[2]	10%	0%	0%	0%	12%	0%	34%	0%	0%	$ 706	8%
OPS Wages	10%	8%	2%	1%	15%	0%	2%	56%	0%	$ 670	7%
Travel and Entertainment	4%	10%	14%	4%	11%	4%	5%	12%	7%	$ 543	6%
Secretary Salary	9%	7%	19%	0%	1%	0%	2%	0%	1%	$ 480	5%
Legal and Professional	<1%	19%	2%	1%	1%	0%	1%	0%	<1%	$ 259	3%
Scholarships	1%	<1%	63%	0%	0%	0%	1%	0%	<1%	$ 143	1%
Other[3]	4%	19%	0%	5%	10%	6%	18%	13%	9%	$ 804	9%
University Combined Total (in Thousands)	$3,883 42%	$1,194 13%	$124 1%	$1,98 21%	$836 9%	$221 2%	$617 7%	$68 1%	$324 4%	$9,252	100%

[1] Seven universities reported funds for fiscal year and two (FAMU and FIU) reported funds for calendar year 1995.
[2] These expenses were funds transferred to the university by the foundation and expended on general expenses.
[3] The Other category includes the following types of general expenditures: administrative services, occupancy expenses, fellowships, and other miscellaneous expenses.

UF - University of Florida
FSU - Florida State University
FAMU - Florida Agricultural and Mechanical University
USF - University of South Florida
FAU - Florida Atlantic University
UWF - University of West Florida
UCF - University of Central Florida
FIU - Florida International University
UNF - University of North Florida

Source: Compiled by the Office of Program Policy Analysis and Government Accountability from information provided by the state universities.

Expenditure of Major Gift Funds

The law stipulates earnings on Major Gift Challenge Grant funds may be used to support libraries, instruction, and research. The Chancellor's Memorandum of Standard Practice also permits universities to use these funds for scholarships and fellowships. In fiscal year 1994-95, almost half the major gift expenditures were for scholarships. The universities also reported the following additional types of expenditures: faculty salaries, OPS wages, equipment and supplies, secretary salaries, travel and entertainment, and fellowships. (See Exhibit 13.)

Exhibit 13: The Universities Spent 45% of the 1994-95 Major Gift Expenditures to Support Scholarships[1]

Expenditures	UF	FSU	FAMU	USF[2]	FAU	UWF	UCF	FIU	UNF	Category Total (in Thousands)	
										Amount	Percent
Scholarships	43%	47%	100%	23%	31%	28%	45%	21%	56%	$1,513	45%
Faculty Salary	18%	24%	0%	44%	12%	61%	16%	46%	0%	$ 683	20%
OPS Wages	12%	5%	0%	9%	9%	0%	1%	0%	0%	$ 279	8%
Equipment & Supplies	8%	9%	0%	16%	5%	0%	7%	4%	44%	$ 252	8%
Travel & Entertainment	5%	1%	0%	<1%	7%	0%	3%	11%	0%	$ 133	4%
Secretary Salary	6%	0%	0%	0%	13%	0%	0%	0%	0%	$ 131	4%
Fellowships	3%	9%	0%	0%	9%	0%	0%	0%	0%	$ 101	3%
Other[3]	5%	5%	0%	8%	14%	11%	28%	18%	0%	$ 265	8%
University Combined Total (in Thousands)	$1,632 49%	$374 11%	$317 9%	$330 10%	$276 8%	$67 2%	$242 7%	$101 3%	$18 1%	$3,357	100%

[1] Seven universities reported funds for fiscal year and two (FAMU and FIU) reported funds for calendar year 1995.
[2] Does not include New College.
[3] The Other category includes the following types of expenditures: administrative services, legal/professional services, occupancy expenses, university general expenses and other miscellaneous expenses.

UF - University of Florida
FSU - Florida State University
FAMU - Florida Agricultural and Mechanical University
USF - University of South Florida
FAU - Florida Atlantic University
UWF - University of West Florida
UCF - University of Central Florida
FIU - Florida International University
UNF - University of North Florida

Source: Compiled by the Office of Program Policy Analysis and Government Accountability from information provided by state universities.

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Statewide, the universities spent approximately $3.4 million in support of major gifts in fiscal year 1994-95. These expenditures range from approximately $18,000 at the University of North Florida to $1.6 million at the University of Florida. According to university staff, the expenditures reflect the universities individual needs and priorities. All universities spent funds on scholarships and most universities spent funds on equipment and supplies. Florida Atlantic University and the University of Florida expended funds for secretary salaries. Florida Agricultural and Mechanical University was the only university to spend all its funds on scholarships.

CHAPTER III Other States

Over half the states we analyzed do not provide state matching funds for similar challenge grant programs. Furthermore, compared to other states that provide matching funds, Florida provides more funds.

To compare Florida's Eminent Scholar and Major Gift Challenge Grant Programs to other states, we selected 15 states based on geographic location, number of public universities, university enrollment, and reputation for fund raising. The states selected for comparison were California, Georgia, Illinois, Kentucky, Louisiana, Michigan, Mississippi, New York, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, and Washington. Eight of these states do not provide state funds for these programs. (See Exhibit 14.) In these states, eminent scholars and major gifts are supported through private donations.

Of the states we analyzed, seven states have provided state funds to support these programs. However, three of these states (Kentucky, South Carolina, and Washington) did not fund these programs in fiscal year 1994-95. The four remaining states differ in the state funds provided to these programs. In fiscal year 1994-95, Florida provided $9.5 million to these programs. During this same period, appropriations to the programs in these four states ranged from $2.25 to $7.5 million. (See Exhibit 14.) The average state funds provided in these four states in fiscal year 1994-95 was $4.8 million.

Exhibit 14: Other States Have Challenge Grant Programs Similar to Florida's Programs

	Program Purpose	Minimum Required Donation	State Match	Funds Appropriated Fiscal Year 1994-95
States That Provided Funds for Challenge Grant Programs for Fiscal Year 1994-95				
Florida	To increase private financial support of the academic functions of state universities and to enhance recruitment and retention of distinguished scholars. Two programs: Major Gift and Eminent Scholars	$100,000 Major Gift $600,000 Eminent Scholar Chair	Matching percentage depends on amount donated	$9.5 million
Georgia	To foster economic development in Georgia through the recruitment of a cadre of eminent "research stars" to the six research universities.	$750,000	100% of private donation	$2.25 million
Louisiana	To enhance the recruitment and retention of distinguished university faculty. Two programs: Endowed Professorships and Eminent Scholars	$60,000 for $100,000 Endowed Professorship $600,000 for $1 million Eminent Scholar Chair	$40,000 for $100,000 Endowed Professorships $400,000 for $1 million Eminent Scholar Chair	$7.5 million
North Carolina	To attract outstanding professors to strengthen and enrich the faculties of the constituent institutions.	$333,000 for $500,000 chair $666,000 for $1 million chair	$167,000 for $500,000 chair $334,000 for $1 million chair	$2.8 million
Virginia	To encourage private contributions to state-supported colleges and universities and to supplement salaries of outstanding faculty members.	Determined by the institutions	State matches the endowment earnings	$6.6 million
States That Did Not Fund Challenge Grants for Fiscal Year 1994-95				
Kentucky	To help recruit and retain exceptional faculty and garner the diverse benefits which accrue from distinguished professors.	$500,000	100% of private donation	(Funded one time by 1986 Legislature)
South Carolina	To attract or retain outstanding faculty who will make substantial contributions to academic excellence of universities and enhance their ability to contribute to the economic or cultural development of the State.	$50,000	State matches 100% of private donations	Not funded in 1994-95
Washington	To strengthen the quality of the state's public 4-year institutions of higher education by stimulating additional partnerships between citizens and the institutions. Two programs: Graduate Fellowships and Distinguished Professorships	$25,000 Graduate Fellowship $250,000 Distinguished Professorship	100% of private donations	Not funded in 1994-95
States That Do Not Provide State Matching Funds				
California, Illinois, Michigan, Mississippi, New York, Ohio, Tennessee, and Texas				

Source: Compiled by Office of Program Policy Analysis and Government Accountability staff.

CHAPTER IV Policy Options and Recommendations

As part of our review we identified options for accomplishing the programs' purpose of providing an incentive for donors in the form of matching grants. In analyzing options to improve these programs we considered the following factors: the Eminent Scholar and Major Gift Challenge Grant programs have been successful in stimulating private financial support for state universities; once an endowment is established, the state's funding responsibility ceases; and, the endowment earnings provide a source of funds to support academic activities year after year.

Policy Options Concerning the Funding of the Programs

In recent years limited public resources have required the Legislature to clearly define its funding priorities based on state needs. Thus, we focused on funding options the Legislature could consider for these programs. These options are grouped into three categories: eliminating or reducing program funding, raising the minimum donation for establishing eminent scholar chairs, and providing additional funding incentives for universities that have established only a few endowments. ***The individual policy options should be considered independently.***

Eliminate or Reduce Funding

- **The Legislature could permanently eliminate funding these programs.** The universities could continue to establish endowments using only private donations. In 1994-95, only 4 of the 15 states we analyzed provided state funds for similar challenge grant programs. This option would not affect established endowments because the activities of the endowments are funded through earnings.

- **The Legislature could reduce its matching commitment for individual endowments.** For example, the amount of state funds needed to match a $1 million contribution could be reduced from

$700,000 to $500,000 if the state matching percentage was limited to 50%. This option would place additional financial responsibility on private donors and reduce the state's financial responsibility. However, any change made to the current state matching percentages may affect the success of the program in establishing additional endowments.

Raising Endowment Needed for Chair

- **The Legislature could change the endowment amount needed to establish an eminent scholar chair.** To increase the funds available to support a chair, the Legislature could change the amount needed to establish an eminent scholar endowment. Presently, the endowment to establish a chair is $1,020,000 and consists of $600,000 from the donor and $420,000 in state matching funds. By changing the minimum donation from $600,000 to $885,000, the state match (70%) would increase from $420,000 to $619,500 and the endowment would increase to $1,504,500. These changes would increase the corpus by $484,500 and should provide additional earnings to support the chair.

Funding Incentives

- **The Legislature could provide funding incentives for universities that have established few endowments.** To attract private donors, the Legislature could provide additional financial incentives for universities with few endowments such as reducing the minimum donation required for establishing endowments. For example, the Legislature could reduce the donation required for major gift endowments from $100,000 to $75,000.

Recommendation to the Legislature

Board policy stipulates that administrative fees for managing endowment funds should not exceed fees commonly charged by private investment firms for such services. Most foundations charge from 1% to 2% of the endowment value. We recommend that the Legislature

amend s. 240.2605(5)(b), F.S., to require foundations to annually report fees charged for the management and administration of these endowments in sufficient detail to allow for review by the Board of Regents.

Recommendation to the Board of Regents

We recommend the Board of Regents review the reasonableness of administrative fees charged by foundations.

Appendix A
Response From the Board of Regents

In accordance with the provisions of s. 11.45(7), F.S., a list of preliminary and tentative review findings was submitted to the Chancellor of the Board of Regents for his review and response.

The Chancellor's written response is reprinted herein beginning on page 26.

STATE UNIVERSITY SYSTEM OF FLORIDA
325 West Gaines Street, Tallahassee, Florida 32399-1950

June 26, 1996

Mr. John W. Turcotte
Director
Office of Program Policy Analysis
and Government Accountability
Post Office Box 1735
Tallahassee, Florida 32302

Dear Mr. Turcotte:

We appreciate the opportunity to respond to the preliminary and tentative audit findings regarding Florida's Eminent Scholar and Major Gift Challenge Grant Programs. The preliminary report includes a recommendation for the Board of Regents to review the reasonableness of administrative fees charged by the foundations. In response to your recommendation, we will require, through Chancellor's Memorandum (CM), that each foundation include, as a part of its annual audited financial statement submission to the Board of Regents Office, a report of the administrative fees assessed the university. The CM will further require that the foundation's independent auditors verify the amounts reportedly assessed. Upon receipt of this information, Board of Regents staff will then review the assessments to determine their reasonableness. We anticipate having this provision in our CM by September 1, 1996.

Please be assured that we will work diligently to implement the recommendation. In addition, we will monitor the implementation of the recommendation through our systemwide audit follow-up program. If you have any questions, please do not hesitate to call Dr. Carl Blackwell, Vice Chancellor for Budgets and Finance, at 487-0862.

With kind regards,

Sincerely,

Charles B. Reed
Chancellor

CBR/htm

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THE FLORIDA LEGISLATURE
OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY Report No. 96-01
July 8, 1996

REPORT ABSTRACT

Review of Florida's Eminent Scholar and Major Gift Challenge Grant Programs

- The Eminent Scholar and Major Gift Challenge Grant Programs have raised $219 million in private donations and established 148 eminent scholar chairs and 707 major gift endowments. (Report Page 4.)

- The programs' success is affected by factors such as the universities' ability to attract private donations and their rates of return on endowment investments. (Report Pages 5-11.)

- The Board of Regents has not determined the reasonableness of administrative fees charged by the foundations. (Report Pages 13-14.)

- In fiscal year 1994-95, eminent scholar and major gift expenditures were primarily for instruction, research, and scholarships. (Report Pages 15-19.)

- Florida provides more funds for its challenge grant programs than other states with similar programs. (Report Pages 20-21.)

Recommendations:

- The Legislature should require the foundations to annually report to the Board of Regents the amount of administrative fees they charge the universities. (Report Page 23.)

- The Board of Regents should ensure the administrative fees assessed by foundations are reasonable. (Report Page 24.)

Review Supervised by: *Jane Fletcher (904/487-9255)* Review Conducted by: *Kim McDougal, Ron Draa, and Tim Elwell*

The entire report should be read for a comprehensive understanding of all findings. Questions about this report or a request for a copy in print or alternate accessible format should be directed to:

John Turcotte, Director, Office of Program Policy Analysis and Government Accountability,
Post Office Box 1735, Room 312, Tallahassee, Florida 32302-1735 (904) 488-1023 or SUNCOM 278-1023

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THE FLORIDA LEGISLATURE
OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY

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